

Chapter IV

Economic Globalization and the Megatrend of Global Openness

Economic globalization is a basic characteristic of modern times. After the end of the Cold War, globalization has advanced rapidly, and the economic integration of the whole world has moved forward at an unprecedented pace, which has contributed to the development and prosperity of the world and the improvement in the well-being of the people. However, globalization and de-globalization always go hand in hand. In recent years, due to the unbalanced development of different countries and especially the impact of the new novel coronavirus pandemic, the rise of anti-globalization sentiment has prompted more people to reflect on the pros and cons of globalization. But in general, economic globalization is an irreversible historical trend. The current “countercurrent” conforms to the law of “spiral development”. With the new round of integration of rules and technological revolution, globalization will, amid twists and turns, embark on a new journey.

I. Development of Economic Globalization

1. Early exploration of the Silk Road and economic globalization before the 15th century – Version 1.0

Economic globalization is a concept that emerged after the industrial revolution, but mankind had begun to explore the outside world a long time ago. **The most famous of those explorations is arguably the ancient Silk Road, which can be seen as the embryo of economic globalization.** It was in the Han Dynasty when the ancient Silk Road first became prosperous. Since Zhang Qian made his first mission

to the western regions, trade along the Silk Road had developed rapidly among China, India, Southeast Asia, Sri Lanka, the Middle East, Africa and Europe. During the Tang Dynasty, the Silk Road became prosperous again and served as a major commercial channel, through which more commodities had been traded. With the rise of the Arab Empire and the southward shift of China's economic center, the Maritime Silk Road had increasingly flourished. By the Song Dynasty, the Maritime Silk Road had gradually replaced the traditional Silk Road in the northwestern region. At the same time, people on the vast Eurasian prairie, including Scythians at the early stage, or later the Huns, Sogdians, Turks, and Mongols, had been promoting the extension and development of the grassland Silk Road for thousands of years.

2. Formation of world market from the end of the 15th century to early 20th century – Version 2.0

As industrial revolution gradually started in all European countries, one after another, coupled with the development of navigation techniques, people had started to engage in long-distance voyages. Christopher Columbus discovered the new world, and Ferdinand Magellan completed his circumnavigation. With the colonial expansion of Western countries, human activities began to spread across the five continents and seven oceans. Before the World War I, one did not need a passport to migrate to other countries. As a result, more than 30 million people moved to the United States and 12 million to Canada and Argentina, which can be seen as the first peak of globalization, **leading to the gradual formation of a unified global market.** At that stage, international trade was mainly driven by the industrial revolution. Britain, France, and the Netherlands took the lead to complete the industrialization process, leading to large-scale modern production, which created an urgent need for the supply of raw materials and a global market. Driven by profit-making prospect, capitalist countries had searched the world for resources and expanded markets around the world; as a result, they had promoted connections between different countries and led to the initial formation of a global market, thus playing a role in laying the foundation for future economic globalization. As Marx said, because the bourgeoisie has opened up the world market, the production and consumption of all countries have become worldwide.

3. Accelerating production and trade globalization during the WW I and Cold War – Version 3.0

After the two world wars, there emerged two camps in the East and the West. Western capitalist countries built the Bretton Woods system and the “three pillars” of the General Agreement on Tariffs and Trade, the International Monetary Fund and the World Bank, **marking a shift from spontaneous economic globalization to institutionalized economic globalization**. Meanwhile, the acceleration of production and trade globalization, coupled with the accelerated technology and industry transfer, had led to the second peak of globalization. The post-war restoration of the international order and the establishment of international organizations had provided a relatively peaceful and free environment for all countries. **Multinational corporations had become the main driving force for the deepening of economic globalization during that period**. The post-war era was a golden age for the development of multinationals. From 1968 to 1969, there were about 7,276 newly established multinational corporations, which had more than 27,300 foreign subsidiaries. International trade developed rapidly during that period. The global trade volume in 1991 was 60 times that at the end of World War II. In the mean time, the Soviet Union and other countries that had adopted the planned economy system in Eastern Europe established the Council for Mutual Economic Assistance to engage in close cooperation. As a result, the world had two parallel markets.

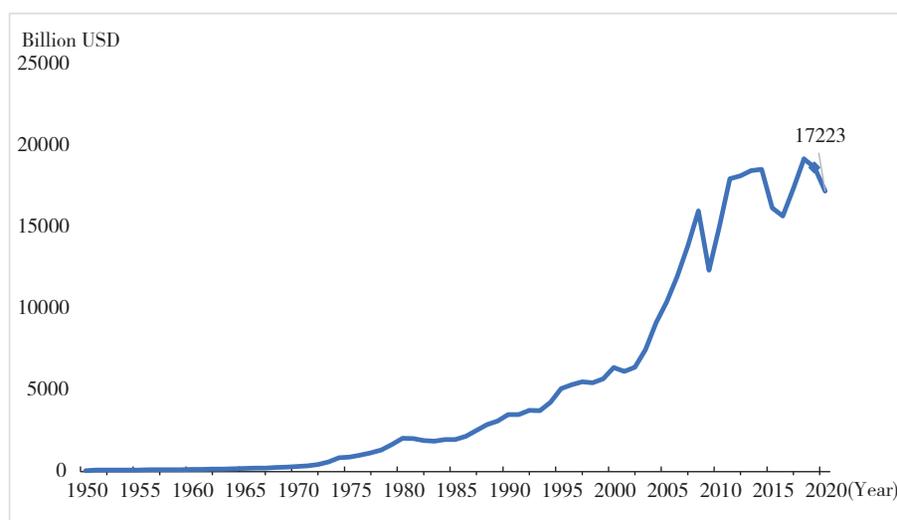


Figure 4-1 World Trade Volume

Note: World excluding Hong Kong re-exports.

Source: https://www.wto.org/english/res_e/statis_e/trade_evolution_e/evolution_trade_wto_e.htm.

4. Economic globalization develops at a fast pace post-Cold War - Version 4.0

As the Cold War came to an end, economic globalization started to develop at a fast pace. The Soviet Union and Eastern European countries embarked on the road of market-oriented reform through the implementation of economic transition. The WTO replaced the General Agreement on Tariffs and Trade. In particular, driven by the new technological revolution, the global flow of information, capital and commodities has accelerated, leading to the “shortened” spatial distance on the earth and the disappearance of “time gap” of information exchanges. This had accelerated the economic internationalization and made the world unprecedentedly open. **The original “one-country economy” that applies to all countries in the world has crossed national boundaries to become an integrated “world economy”, leading to trade, capital, production, consumption, technology, service, and organizational globalization and formation of global industrial, supply and value chains, thus creating a global interdependent and mutually supporting economic scenario.** During this period (1990-2019), the total world trade volume increased by 5.4 times, the global investment stock increased by 16.6 times, and the global air passenger traffic increased by 4.3 times. China joined the WTO in 2001 to get fully integrated into the world market and grew into the second-largest economy and the largest trading power in terms of trade in goods, accounting for 13.1% of the world’s total trade volume in 2020, up from 4% in 1990. Meanwhile, it accounted for 15% of the world’s total foreign investment inflow in 2020, compared with 6.1% in 1990. In terms of outbound investment, China accounted for 18% of the world’s total in 2020, compared with 1% in 1990, becoming an important force to promote economic globalization, making China an important driving force promoting the continual development of economic globalization.

Box 4-1 Global Production Network of Boeing and Apple

Boeing airplanes and Apple mobile phones are the most typical case. The manufacturing process of the two companies has become globalized. Boeing has made full use of globalized industrial chains in making its 787 passenger plane. When it made its 727 model, the workload of foreign suppliers only accounted for 2% of the total. When it made the 777 model, the ratio rose to 30%. And it reached an astonishing 70% in making the 787 model. The value of an aircraft can be divided into that of fuselage,

wings, tail, and landing gear, which combine to account for about 40% of the total value of the plan. In the 787 passenger plane, Italy's Alenia and the Water Aircraft Industry Corporation of the United States are responsible for the central part of fuselage, and most of the wings and tail are monopolized by the three Japanese heavy industry consortia, Mitsui, Mitsubishi, and Kawasaki. Boeing is only responsible for making about 35% of the aircraft and the final assembly. Boeing CEO Philip Condit has a classic description of such division, saying that Boeing is an assembly company, or it can be called an equipment integrator. Apple has 766 global suppliers from 28 countries and regions, including 69 American suppliers, 346 Chinese suppliers and 126 Japanese suppliers.

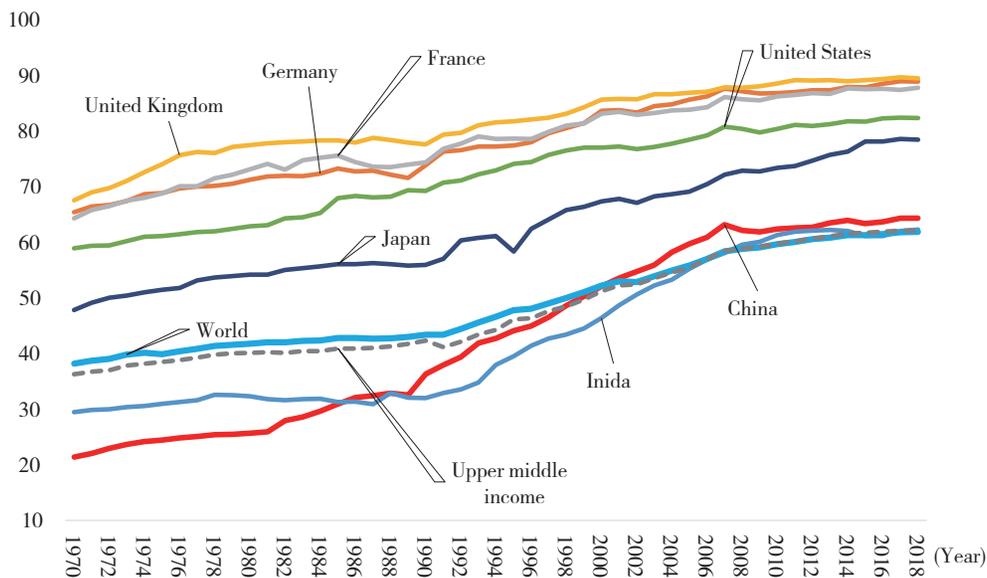


Figure 4-2 Globalization Index

Source: KOF Swiss Economic Institute.

The research report of the KOF Swiss Economic Institute has confirmed that process. Since the 1990s, the world globalization index had risen rapidly, from 43.3 in 1990 to 61.8 in 2018, and the level of openness had increased by 50 percent. After the 2008 global financial crisis, the pace of opening-up weakened in most countries, but the momentum had nonetheless been kept, with the globalization index kept at medium to high levels of about 60 on average. During that period, developing countries, such as China and India, began to rapidly integrate into the world. China's globalization index increased from 36.3 to 64.3, which exceeded average level of the world as a whole and was even higher than that of countries of the upper high income group. India's

globalization index increased from 31.9 to 62.2, roughly at the same level of the world as a whole. **Compared with developed countries**, developing countries, such as China and India, had a globalization index that is 20-30 percentage lower. **Generally speaking, economic globalization and the opening-up of countries reinforce each other. As the economic globalization develops, it will create demand for all the countries becoming more open. And the more open the policies of those countries, the better the economic globalization will fare.**

II. Increasing Resistance to Economic Globalization

“The more rapid its advancement, the more dangerous its path would be.” Economic globalization is a “double-edged sword”, with both driving force and resistance increasing simultaneously. After the 2008 global financial crisis, populism and extreme nationalism have been on the rise in many countries, which have blamed their own problems on economic globalization, setting off a counter-globalization wave. Economic globalization has entered a new stage of adjustment and momentum accumulation before it can re-start.

1. Rising protectionism

While economic globalization expands the “cake”, which refers to benefits of development, the problem of properly dividing and distributing the “cake” has become prominent. There have occurred increasingly serious contradictions between growth and distribution, capital and labor, and efficiency and equity. The global wealth gap has become so serious that the world’s Gini coefficient has hovered around 0.7. The “victims” of globalization have become increasingly dissatisfactory, setting off a global wave of protectionism. In recent years, there have been major events that typically reflect such a trend, such as Brexit and Trump’s election as the US president. The rise of far-right or far-left parties in some countries, emphasizing that their domestic and national interests should be the top priority of policymaking, while opposing economic globalization and adopting protectionist policies in dealing with other countries. According to a WTO report released in June, 2021, Since the outbreak of novel coronavirus pandemic, the G20 members initiated 140 trade and trade related measures, of which 39 measures or 28 percent were trade restrictive measures.